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HOUSE TAX POLICY COMMITTEE
124 N CAPITOL AVE
LANSING, MI 48933

MY NAME IS ANNE WILTON. I AM THE EXECUTIVE VICE PRESIDENT FOR ALL STAR VENDING, INC., A FOOD SERVICE COMPANY WITH CORPORATE HEADQUARTERS LOCATED IN PORT HURON, MI. AS EXECUTIVE VICE PRESIDENT, I AM RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF THE CORPORATION AND ALSO LABOR RELATIONS. OF ALL STAR'S 67 EMPLOYEES, 2/3 ARE COVERED UNDER A TEAMSTER'S COLLECTIVE BARGAINING AGREEMENT.

ALL STAR PROVIDES HEALTH CARE BENEFITS TO ALL FULL TIME EMPLOYEES. THE UNION BENEFITS ARE PROVIDED THROUGH THE TEAMSTERS HEALTH AND WELFARE FUND; NON UNION HEALTH BENEFITS ARE WITH A PPO PROVIDER.

YES, ALL STAR PAYS SINGLE BUSINESS TAX. IF I TAKE THIS PAST YEARS INDUSTRY AVERAGE INCOME OF .1 % OF SALES, ON A \$10MILLION COMPANY, EQUATES TO \$100,000 IN INCOME. MICHIGAN IS LABOR INTENSIVE, A COMPANY WOULD ADD BACK 2.6 MILLION DOLLARS IN PAYROLL, \$370,000 IN HEALTH INSURANCE BENEFITS, \$77,000 IN PENSION, AND ANOTHER \$885,000 IN DEPRECIATION AND INTEREST. UNDER THE CURRENT LAW IF WAGES WERE IN EXCESS > 63%, THEY WOULD RECEIVE A PARTIAL CREDIT; IN ALL, THE TAX BASE ON \$100,000 PROFIT COULD BE AS MUCH AS \$3.6 MILLION DOLLARS, FOR A TAX CALCULATION OF APPROX \$65,000. THE PORTION OF THIS DIRECTLY RELATED TO HEALTH CARE IS \$7030. UNDER THE OLD CORPORATE INCOME TAX CALCULATION OF 7.8%, THIS TAX WOULD BE A TOTAL OF \$7800 COMPARED TO \$65,000 TODAY.

THE DISTURBING THING ABOUT THIS IS FIRST AND FOREMOST, THESE ARE LEGITIMATE BUSINESS EXPENSES THAT MUST BE INCURRED TO BE IN BUSINESS, YET THEY ARE TAXABLE FOR SBT. IN THIS EXAMPLE, WE WOULD LITERALLY HAVE TO LOSE OVER \$3MILLION DOLLARS IN ANY GIVEN YEAR TO ELIMINATE OUR SBT TAX LIABILITY. EVEN MORE DISTURBING, WHILE A \$3MIL LOSS WOULD PUT US OUT OF BUSINESS, THE OWNERS AND OFFICERS WOULD STILL BE PERSONALLY LIABLE FOR THIS TAX. I DO NOT HAVE ANY OWNERSHIP IN THE COMPANY, BUT BECAUSE I HAVE CHECK SIGNING PRIVELEGES, I COULD PERSONALLY BE HELD LIABLE FOR THE SBT TAX.

OVER THE NEXT THREE YEARS, ALL STAR'S UNION HEALTH CARE PREMIUMS WILL INCREASE BY 49% WITHOUT THE TAX INCREASE. THESE RATES ARE PUBLISHED AND CAST IN STONE. ASSUMING THE NON UNION FOLLOWS THE SAME TREND, UNDER THE NEW LAW THE SBT ON HEATH PREMIUMS WOULD BE AT 1.2% OR \$6600. IF THIS IS IN ADDITION TO THE 2% HEALTHCARE TAX PROPOSED TO BE PASSED ON TO THE PROVIDERS. THAT WOULD INCREASE THE TAX ANOTHER \$11,026 FOR A TOTAL OF \$17626 COMPARED TO \$7030? IF IT IS IN PLACE OF THE 1.2 % OF THE HEALTHCARE, \$11026 IS STILL AN INCREASE OF 57%.

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THE IRS HAS GIVEN TAX INCENTIVES TO BUSINESSES TO ENCOURAGE INVESTING IN CAPITAL EQUIPMENT. BY ADDING BACK THE DEPRECIATION IN THE SBT CALCULATION, THE STATE OF MICHIGAN IS TAKING THAT INCENTIVE AWAY. FOR EG, ON \$600,000 OF PURCHASES THE TAX CREDIT WOULD BE \$3000. ON DEPRECIATION OF \$780,000 YEAR, THE TAX IS \$14,820. A MICHIGAN BUSINESS IS PENALIZED \$11,820 NET FOR INVESTING IN THEIR BUSINESS.

I APPRECIATE THE FACT THE COMMITTEE IS LOOKING TO ELIMINATE HEALTHCARE IN THE SBT TAX CALCULATION. THIS IS AN EVER INCREASING COST TO EMPLOYERS THAT IS BECOMING COST PROHIBITIVE. IN THIS LAST CONTRACT NEGOTIATION WITH THE UNION, ALL STAR HAD TO HOLD OUT FOR CONCESSIONS IN HEALTHCARE BENEFITS INCLUDING INCREASED DRUG COPAYS; INCREASED DEDUCTIBLE AND COPAYS ON MAJOR MEDICAL; EMPLOYEES HAD TO CONTRIBUTE \$20/WEEK TOWARDS THE PREMIUMS; EMPLOYEES TOOK A WAGE FREEZE FOR THREE YEARS; UNION AGREED TO A TWO TIER PAY SYSTEM WHERE NEW EMPLOYEES COME IN AT 75% OF SCALE. THIS WAS ALL DUE TO THE INCREASE IN THE HEALTHCARE PREMIUMS. IN SPITE OF THE CONCESSIONS, THE COST OF THE THREE YEAR CONTRACT TO ALL STAR WAS 10.4% OF ITS PAYROLL (MUCH HIGHER THAN INFLATION).

HEALTHCARE PREMIUMS ARE A START BUT LOOKING AT THIS EXAMPLE, ON \$100,000 IN PROFITS, THE TAX BASE FOR SBT COULD BE AS MUCH AS \$4,MILLION. WITH THE NEW PROPOSAL, IF I UNDERSTAND IT CORRECTLY, ANNUAL PROFITS WILL BE DOUBLED, THE REDUCTION FOR WAGES IN EXCESS OF 63% WILL BE ELIMINATED; THE MAXIMUM GROSS RECEIPT CALCULATION WILL BE ELIMINATED; TAX ON HEALTHCARE PREMIUMS WILL BE ASSESSED AT 2%; IT DISCOURAGES BUSINESS IN MICHIGAN BY TAXING LABOR IN AN LABOR INTENSIVE STATE; DISCOURAGES INVESTMENT IN CAPITAL BY ADDING BACK DEPRECIATION AND INTEREST EXPENSE; ALL LEGITIMATE COSTS OF DOING BUSINESS THAT GENERATE A TAX EQUAL TO MORE THAN HALF THE CORPORATE PROFITS. THIS ENTIRE SBT CALCULATION IS COUNTER PRODUCTIVE TO DOING BUSINESS IN MICHIGAN.